Education as a positional good for market-based reforms of state schooling: paper presented at the ECER 2000-Conference in Edinburgh, 20-23 September 2000

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Abstract

Previous discussions of the desirability and impact of market-based reforms of state schooling while acknowledging positional elements in parental demand, have failed to fully examine their nature and implications. Contrary to the normal predictions of orthodox economic analysis, competition in positional markets can result in inefficient outcomes. Predominantly relying upon recent British experience, we examine the extent to which compulsory schooling can be viewed as a positional good and explore its implications for policy. In particular we consider whether policies targeting increases in parental choice can be designed to assist a rise overall levels of educational attainment.

Key Words: schooling choice, educational markets, positional good, status competition

JEL Classification: I20, I28, D11

1. Introduction

The market choice critique of state schooling systems has proved influential in many Western countries in recent decades. The critique combines a belief in the potential effectiveness of the market mechanism, based upon orthodox economic analysis, with a view that public provision of schooling creates chronic inefficiencies, based upon public choice theory. In practice, most governments have been unwilling to adopt full market or even voucher-based reforms of the prevailing state school systems. Instead one common element of these reforms has been policies to increase parental choice (Whitty, Power and Halpin, 1998): increasing consumer's power to exercise 'exit and voice' in the terms of orthodox economics. In Britain, for example, a combination of open enrolment, per capita funding and deregulated admission procedures has encouraged increased competition in local schooling markets. Educational researchers have been concerned to analyse the consequences of these changes and attention has focused upon their impact upon the pattern of demand and curriculum diversity in local schooling markets. A more fundamental issue concerns the underlying motivation behind parental behaviour in schooling markets and whether strengthening individual parental choice produces an effective demand for improvements in overall educational attainment.

Previous debates concerning the impact of parental behaviour in schooling markets has included some discussion of the consequences of education being viewed as a positional good (e.g. Jonathan, 1990; Ranson, 1993, Bowe, *et al.*, 1994 and Tooley, 1995). It has been argued that a characteristic of positional goods is that the total level of welfare or benefits to be derived from such goods in a market is fixed. An increase in the benefits from 'consumption' for one individual must therefore be at the expense of benefits to others. This follows since parents are presumed to be concerned with the educational attainment of their children **relative** to other children in the cohort, not with their absolute level of attainment. An underlying rationale for such behaviour can be provided via fixed hierarchies of employment opportunities and social status linked to educational attainment and sustained across generations by cultural capital. Jones and Hatcher (1994) argue for the existence of a fixed hierarchy of employment opportunities. While Bourdieu and Passeron's (1977) analysis of cultural capital's role in perpetuating a hierarchy of social standing has formed a crucial part of many sociological analyses of recent educational policy (e.g. Ball *et al.,* 1996).

In this paper we seek to build upon previous discussions of the positional elements of

the demand for education by utilising insights from recent economic analyses of consumer behaviour. Our analysis distinguishes between consumption and investment elements of behaviour in schooling markets and identifies externalities resulting from this behaviour. We argue that positional elements appear more influential in the former behaviour than in the later. They act in a way to sustain hierarchies and can distort incentives to raise overall levels of educational attainment in local schooling markets. Our analysis enables a more wide-ranging examination of the policy implications of the presence of positional competition in schooling markets. This analysis also has significance for the broader school effectiveness movement, since entrenched positional competition may be incompatible with reducing the dispersion of schooling outcomes.

Initially we summarise previous analyses and identify the contributions made by Hirsch (1976) and Frank (1985) to the understanding of the nature of positional goods. By this means we aim to clarify on what basis, and to what extent, schooling may be considered a positional good. We are particularly concerned with the implication of accepting, following Hirsch, that education is only partially a positional good. Neither Hirsch, nor more recent commentators who have incorporated his positional good argument into their analyses, have discussed whether the degree of positionality is subject to policy influence or spelt out how a partially positional good exerts its effect on schooling market behaviour.

The following two sections distinguish between parents as consumers and investors in educational markets, appraising the ranking versus absolute consumption theories of parental utility. In our analysis of investment behaviour we show how this same distinction underlies the divide between human capital and sorting models of the economic returns to education. In critically assessing the appropriateness of a 'fixed sum' approach to educational outcomes, we identify the existence of both consumption and investment externalities and explore the nature of labour market adjustments. In both of these sections we assess the evidence available on the rationale for, and extent of, positional competition in schooling markets. Our final section addresses the policy implications. In particular, given the existence of positional elements in parental behaviour we examine the implications for the design of policies which target increasing parental choice in schooling markets.

2. Positional competition: a short review

Earlier debates on the merits of markets in education included some reference to the idea of education as a positional good. Jonathan (1990) in developing her critique of market-based schooling reforms partly relies upon positional good considerations. She asserts

that education's value-in-exchange depends upon the amount held relative to others, not on its absolute value. The consequence, she claims, is that measures to increase individual opportunity and choice in schooling markets decrease social justice as a whole. As Tooley (1992) pointed out, Jonathan's analysis appears to implicitly assume that 'good schools' and 'good jobs' are in fixed supply. These assumptions were made explicit by Ranson (1993), who viewed schooling as a screen that filters individuals into privileged occupations. He compares education to works of art or houses by the sea (following one category of positional goods suggested by Hirsch). Since such goods are physically in fixed supply, consumers' desire for relative consumption causes the market mechanism to allocate them to the highest bidder. For Ranson in schooling markets the currency is social status, the "price paid for entry into privileged market niche's is one manifestation of cultural capital" (p.337). Ball (1993) argued that for some consumers the "point about choice is that they 'require' exclusivity and/or performance advantage, a levelling up of standards does not serve their interests" (p.12). For these critics the consequence of increased parental choice is inevitably to reinforce existing class divisions, without creating greater consumer voice for higher educational levels of attainment.

Tooley (1995) in his reply to Ranson points out that positional good elements are at least equally likely in non-market schooling systems, and that zero-sum outcomes in competitive schooling markets are unlikely. It is this latter argument which we wish to examine. More precisely, if schooling is in part a positional good, will greater consumer choice strengthen incentives for an overall rise in educational attainments and economic growth or merely foster wasteful positional competition?

Assessing the applicability of positional arguments to education is made complex by the multiple outcomes of schooling. Education provides immediate consumption benefits (pupils' enjoyment or otherwise, parents' satisfaction with the status accorded by the social standing of their children's school etc.) and various future (investment) benefits such as enhanced earning capacity and ability to enjoy a range of cultural and social activities. This distinction between consumption and investment benefits becomes important as we explore in more detail the nature of 'positional goods'.

Ancil and Hakes (1991) and Ackerman (1997) examine the antecedents of Hirsch's rejection of a core assumption of orthodox consumer theory: asocial individualism. Orthodox economic theory generally assumes that an individual consumer's desires, preferences and behaviour are determined independently of social institutions, culture and the behaviour and well-being of others. The desirability of positional goods and services, as expounded by Hirsch (1976), reflects their scarcity and/or sensitivity to social congestion or crowding. The

supply of schooling is clearly not subject to physical restrictions, the very short-run excepted. It is always possible to build another school, employ more teachers and buy more educational technology, although such expansion may be subject to diminishing returns. Similarly, it would appear to be always possible to create more 'good' schools according to conventional absolute definitions of 'good'. Neither the critics of the school improvement agenda (e.g. Gewirtz, 1998) nor those questioning that quality is resource-dependent (e.g. Hanushek, 1996) argue that the quality of schools' outputs is immutable or predetermined. What therefore is more relevant to education is Hirsch's argument that positionality can reflect 'social scarcity'.

In conventional economic analysis the utility gained from a good or service is an increasing function of its present and future consumption. For Hirsch, the value of education depends upon **both** absolute and relative levels 'consumed', with many consumers seeking status based on exclusivity or scarcity. These latter considerations lead to positional competition, where individual parents attempts to improve their child's relative position encourage imitation, and can result in both low private and social marginal returns to increases in the resources devoted to schooling[1].

Noting that consumer behaviour will be based upon the expected, rather than the actual, consumption and investment benefits of a high 'relative' consumption, Frank (1985) developed more formal models of positional consumption. Utility from consumption depends upon context, each individual's consumption behaviour affects the frame of reference within which others evaluate their own consumption behaviour. He argued that this frame of reference effectively becomes a public good influencing the subjective well-being generated by individual behaviour. The uncoordinated decisions of individual parents cannot produce an optimal output of this or any other public good. In his analysis of 'local' status, individuals are largely concerned with within-group comparisons. He argued that position matters were particularly important when choosing for one's child and educational decisions were identified as an example where interpersonal comparisons were particularly important. As Mason (1998) points out, both Hirsch and Frank viewed demand for positional goods and services as being consistent with standard economic theory's assumption of the rational pursuit of self-interest, though they did differ as to the main implications of the consequences of widespread positional behaviour. Whereas Hirsch's main concern was the absence of any strong relationship between economic growth and social welfare,

[1] Though where the existing provision of schooling is sub-optimal, for example the staying-on rate after compulsory schooling is too low, then such positional competition may be socially beneficial.

Frank's was the bias against saving and leisure in competitive markets and the consequential need for regulation to promote social welfare. In the context of local schooling markets, Frank (1997) argued that the tendency for families to seek to buy houses closer to 'better' schools reallocates family expenditure away from retirement savings and inflates certain house prices without raising social welfare[2].

Frank argued that 'prisoner's dilemma' effects in combination with the prevailing frame of reference would cause this wasteful competition to persist over time. In contrast, Congleton (1989) pointed out that the social desirability of status-competition depends crucially upon the net effect of externalities or spillover effects generated. Transferring Congleton's argument to the schooling market, what matters overall is whether those demanding highly-ranked education for their children, have the effect of raising or lowering the general quality of education in society. As Congleton argued, there are both consumption and investment externalities: one individual's consumption and investment of schooling affects the consumption and investment returns available to other individuals. For example, the inclusion of a disruptive child in a class may affect the level of educational attainment of their peers. However, contrary to the arguments of Jonathan and Ranson such externalities are not inevitably negative. For example, one parent's decision to invest in more schooling eventually increases the supply of educated workers and raises the probability that an employer can fill a vacancy for a 'good' job. As a consequence more 'good' jobs are created. As Snower (1996) has argued, national differences in the exploitation of such trading externalities can account for observed differences in the proportion of 'good jobs' in an economy's labour market. We now consider consumption and investment behaviour in turn.

3. Positional Considerations and the consumption demand for education

As Mason (1998) has shown, orthodox economic analysis of consumer behaviour has neglected status consumption, recognising at best only a narrow Veblenian interpretation of conspicuous consumption. This is notwithstanding Leibenstein's differentiation, as far back as 1950, between Veblen, snob and bandwagon effects and substantial empirical evidence indicating the importance of relative standing in consumer behaviour (for exam-

2 Frank's argument is not fully convincing, since in a competitive housing market the lower house prices close to 'unpopular' schools should enable these residents to allocate more towards schooling, retirement etc.

ple, Easterlin, 1995 and Solnick and Hemenway, 1998). For Leibenstein a 'Veblen effect' arises when consumer demand for expensive goods and services is influenced by the impression made upon other consumers. However, the social interdependence of an individual's demand function also reflects 'bandwagon effects', where demand is positively influenced by the number of other consumers purchasing it, and 'snob effects' where willingness to pay reflects exclusivity. Corneo and Jeanne (1997) argue that these latter two types of incentives for conspicuous consumption may be categorised as a desire not to be identified with the poor and the desire to be identified with the rich. If social norms allocate status in such a way that the second type of incentive dominates the demand for an observable good or service then a snob effect appears.

Research into parental behaviour suggests that in the case of schooling 'Veblen', 'snob' and bandwagon'[3] effects may exist in different segments of the market. The snob effect may dominate amongst the active middle-class consumers, and Veblen effects amongst those who opt-out of state schooling. However, there are likely to be some elements of consumption behaviour, such as a child's freedom from bullying and attaining mutual respect, where utility reflects absolute and not relative performance.

Market-based reforms in the UK appear to have given a new impetus to the ability of skilled and privileged choosers to generate Veblen, snob and bandwagon effects. Echols and Willms (1995) found that parents' socio-economic status was an important determinant of the exercising of choice and since their study many other small scale and qualitative studies have reached similar conclusions. For example, Gewirtz *et al.*, (1995) argue that parents choose on the basis of the class mix of intake and that the: "use of cultural capital in the decoding of schools and interpretation of information and in the 'matching' of a child to a school is a crucial component of choosing and then getting a school place…" (p.56). Woods *et al.*, (1998) whilst confirming the greater emphasis which middle class parents place on instrumental-academic outcomes note that this tendency differs across local schooling markets. Their study found that child-centred factors were an important factor for all parents exercising choice. Initial large-scale quantitative studies by Gorard and Fitz (2000) dismiss the argument that schools are becoming more socially segregated, though Gibson and Asthana (2000) have challenged their methodology. Comparative studies of the consequences of increased school choice suggest the importance of historical, institutional and societal differences. In the Netherlands strict streaming and increased di-

[3] The bandwagon effect has been incorporated into recent economic analyses of informational cascades and applied to the incentives for conformity in schooling markets (Adnett and Davies, 2000).

versity between schools has meant that increased choice has only been associated with slight increases in social differences between schools (Teelken, 1998). In contrast, in New Zealand published details of the socio-economic mix of pupils appears to be used by parents to infer school quality, even when at the secondary level data on the performance of students in national tests is also available (Fiske and Ladd, 2000). As a consequence polarisation both in terms of ethnicity and social class has been further encouraged.

It would seem that an improvement in the social status of one school must be at the expense of others, however if parents do not share a common frame of social reference this may not be the case. For instance, some parents may gain satisfaction from the greater religious socialisation offered by a Muslim or Christian school, whilst other parents need not feel disadvantaged by the absence of such religious socialisation at the school they have chosen. Because there are multiple potential bases for the achievement of social status, an increase in the social status of one individual is not necessarily at the expense of another, even if all social hierarchies, perceptions and cultures were fixed. However, policies (such as school league tables) that act intentionally or unintentionally to secure a more strongly shared frame of social reference will tend to strengthen positional competition within education. As New Zealand experience illustrates such competition need not be on the basis of levels of educational attainment. Though the more that schooling emphasises success in terms of a uni-dimensional ranking, the greater the positional component of the outcomes. In these circumstances, generating a sense of failure accompanies generating a sense of success and the relativity in pupils' immediate consumption benefits from their enjoyment of being in school will depend in part on the degree to which the school presents achievement as absolute or relative.

4. Positional concerns and the investment demand for education

Positional concerns in schooling markets are unlikely to be limited to consumption benefits alone. As Power (2000) argues "members of the middle class largely depend upon the credentials bestowed by the education system to acquire or hold on to their position" (p.134). In turn it has become commonplace (for example, Fershtman and Weiss, 1993) to relate social status to the average wage and skill-level of those employed in any particular occupation. The investment benefits of schooling may be divided, for simplicity, into earnings benefits which give command over higher levels of future consumption and participation benefits in terms of ability to enjoy the opportunities for wider socio-cultural interaction. Orthodox economics emphasises the former and claims that future earning power

predominantly reflects the impact of schooling on productivity rather than through returns from 'old boy' networking or other channels.

The dominant human capital approach claims a causal link between absolute investments in schooling and earning power through the influence of knowledge and skills on productivity. This effect is assumed to be independent of the impact of ability and cultural capital, assumptions that are rejected by the sorting (signalling/screening) approach. The latter argues that investments in schooling have little direct influence on productivity, but instead provides signals of ability or preferred personal characteristics to potential employers. In the human capital approach an individual's expected economic return to schooling, and therefore their demand, is assumed to be based upon the absolute investment in schooling. In sorting models, schooling is correlated with unobservable productivity differences that predate schooling decisions. Employers make inferences about these productivity differences from an individual's schooling choices. Hence this sorting behaviour encourages a positional demand for investments in education. In credentialism, often grouped with sorting models, wage differences are independent of productivity differences and education need have no effect upon productivity. According to this approach increases in absolute levels of educational attainment merely induce higher educational entry tariffs to be applied to the 'good jobs'. Empirical studies, surveyed by Weiss (1995) and Topel (1999), whilst generally rejecting credentialism and supportive of human capital approaches, rarely completely reject the importance of sorting considerations.

In the human capital approach the actual returns to investment, the premium offered to educated workers, will depend upon the balance of demand and supply. As levels of typical affluence increase, the material and knowledge requirements for full participation in society also increase. Education equips individuals with skills in communication, critical evaluation and a greater ability to learn. Developments in the prevalence of information and communications technology and in the complexity of external economic and commercial pressures suggest a need for increased and re-focused schooling to maintain levels of social participation (Flores and Gray, 2000). Higher education levels may lead society to create more complex, less accessible, forms of interaction which bring greater satisfaction at the expense of the social participation of those with lower levels of education. In this scenario then the positional aspect of education is strengthened, whether this is socially beneficial again depends upon the externalities generated. As emphasised in recent models of endogenous growth, general increases in the levels of educational attainment are likely to be a major source of positive social externalities. For example, the learning which contributed to the development of e-mail, the internet and mobile phones can be reasonably regarded both

as a source of economic growth and as enabling greater social interaction for a wide section of society. Likewise, a more educated worker may not only have a positive spillover effect on the productivity of colleagues, but may also improve the quality of interactions in the workplace through a deeper understanding of social interaction and communication skills.

The presence of positive social externalities from private investments in schooling provide one reason for rejecting a simple zero-sum approach to educational outcomes. More fundamental is the impact upon the long-run economic performance of developed economies. There is a mass of empirical work suggesting that the overall growth rate is sensitive to the level of investment in schooling (Blundell *et al.*, 1999 and Topel, 1999). It seems clear that in the medium and long-term the supply of 'good jobs' is not fixed. Instead, supply is sensitive to patterns of supply and demand in the labour market and to the overall success of the national economy in achieving economic growth and sustaining international competitiveness. It is also now apparent that the recent growth of labour market inequality in the UK is a reflection of the growth in returns to educational investments not, as suggested by Jones and Hatcher(1994), a consequence of their fall. As Machin (1998) points out the switch in demand towards the more educated and skilled has been sufficient in the UK since the mid-1970s to increase the wage differential earned by more educated workers notwithstanding the large increase in the relative supply of the latter. That is the supply of 'good jobs', or at least those that pay a premium to educated workers, has increased as average schooling investments have increased. Francesconi *et al.*, (2000) argue that a further consequence of this bias in technological change has been to cause a higher equilibrium rate of unemployment for the less educated.

Whilst the weight of evidence is as summarised above, a number of recent UK studies offer some limited support for the credentianlist hypothesis. Robinson and Manacorda (1997) analyse the occupational and educational structure of employment for 1984-94 and conclude that the increased holding of qualifications over time simply results in employers upping the educational requirements for an occupation. Sloane *et al.*, (1999) conclude that nearly a third of British workers were over-educated for their employment. Whilst Green *et al.*, (1999) find little evidence of widespread qualifications inflation, they do find that the increased demand for more educated and skilled labour has not produced uniform higher returns to education. The type of education in terms of skills acquired and curricula studied are important in determining returns, not just the level of educational attainment.

In summary, the evidence available suggests that in general the economic and social lifetime returns to schooling are based upon absolute rather then relative levels of schooling. If

this is the case then there is no economic rationale for a strong positional element in the investment behaviour of parents, children and students in schooling markets. Though whether parents who expected returns to investments in positional competition are provided with effective signals to the contrary remains an important question.

5. Positional competition and schooling market outcomes

Our discussion above suggests that Hirsch was correct in arguing that schooling was partly a positional good. In this final section, we initially need to consider the desirability of positional competition in schooling markets. Much of the previous discussion of market-based reforms has implicitly assumed that positional competition is inevitably economically wasteful and socially undesirable. Our analysis has indicated the need for a more cautious assessment, since positional competition can generate both positive and negative externalities. Given our particular interest in recent market-based reforms, we can restrict our further discussion to a more limited question. Educational reforms have commonly further empowered active choosers in schooling markets. Given that these decision-makers are partly motivated by positional considerations, how do these considerations influence the impact of reforms on overall levels of educational attainment?

Where positional considerations apply then several conventional economic policies to influence demand may be counter-productive. For example, applying the logic of Corneo and Jeanne (1997) to schooling markets, punitive taxes on private school fees can in certain circumstances actually stimulate demand for private schooling. Similarly, the 'poor' may prefer the continued presence of private schooling, although its effect is to increase inequality. This follows, as Biggs and Dutta (1999) argue, if state schooling suffers from congestion and the rich pay for state schooling through taxes but do not use it. In general, positional considerations may make it difficult for governments to generate voter support for policies to reallocate educational resources to 'unsuccessful' inner-city or high-cost rural schools (Kozol, 1991). Suburban voters do not wish to create stronger competition in post-compulsory education and the labour market for their own children. They will therefore sustain allocations of public educational expenditures that may be inefficient in terms of overall national levels of educational attainment. Policy therefore needs to mould the frame of reference of parents in a socially beneficial way, whilst also discouraging individual parents from participating in positional competition. In Frank's terms, what policy needs to encourage is the universal adoption of a frame of reference in parental decision-making that stresses private net benefits and positive externalities and abhors negative externalities.

In order to provide a coherent framework for discussing policy implications, we need to abstract from our preceding analysis the factors determining the extent of positional competition in schooling markets. In general, the positional element in the demand for education will be greater if:

(i) utility reflects relative rather than absolute present and future consumption;

(ii) there is less variety in frames of reference employed independently by parents (fewer sub-groups and sources of social status);

(iii) the occupational structure and relative wages are less responsive to changes in the to changes in educational attainment;

(iv) educational provision is less responsive to changes in labour demand and is more geared to reproducing current socio-political structures;

(v) the time horizon is short.

The extent of positional competition in schooling markets will also reflect the expectations of parents about the size of these five determinants, not just their actual values. Schooling policy can be designed to influence parental expectations and each of these factors individually. We illustrate by considering factor (iii): the variety of frames of reference.

One major weakness of our analysis has been the neglect of peer group effects and other externalities, including voluntary donations from parents, which cause there to be potential social benefits from having integrated schools. In certain circumstances, segregation can lead to under-performance and under-investment in terms of effort and resources by parents, pupils and teachers in the lower-ranked schools, which is both inefficient and inequitable (Adnett *et al.*, 1999). Greater social integration can however produce a trade-off between the short-run costs borne primarily by rich/active parents and the long-run benefits of faster economic growth felt by everybody.

An associated problem resulting from increased parental choice is that active searchers determine market norms, even when their tastes are not those of the more passive parents. Gewirtz (1998) shows how the undersubscribed and 'unsuccessful' schools in local markets, even those effectively targeting the needs of their existing clientele, may seek to 'improve' by changing their provision to attract middle class parents. If it is the case, as Lauder *et al.* (1999) argue, that middle-class parents take a longer-term perspective to educational decision-making, then this specific bias produced by the marginal, active parents may be thought to be desirable. However, this presupposes that the type of schooling which produces the highest returns is the same for all pupils, an assumption we have pre-

viously questioned (Davies and Adnett, 1999). If segmentation (by ability and parental cultural capital) concentrates positive peer group effects in particular schools then existing school rankings are reinforced, at the same time as we observe a convergence on traditional academic schooling in local markets.

Different policies have been introduced to try to address this issue. In some local school markets in New Zealand, over-subscribed schools are required to select intake via ballot, instead of academic merit or 'suitability', in order to promote social mix (Lauder, *et al.*, 1999). In Finland, one local authority has paid the bus fares of those opting on the grounds of specialist academic provision for schools outside of the neighbourhood (Ahonen, 2000). In a UK context, Beacon schools and the 'superhead' initiatives may be seen as a way of imitating integration without requiring the same degree of short-run costs to be borne by the parents of those in highly-ranked schools. Value-added league tables which provide information relevant to all parents, regardless of the ability of their children, are a further mechanism to try to encourage the a diversity in the frames of reference employed in schooling choices.

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